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ALTAI

R E S O U R C E S I N C .

ANNUAL REPORT 1996

Not cross-listed for
96 ~ 98.

TO OUR SHAREHOLDERS

The audited consolidated financial statements for the year ended December 31, 1996 and the summaries of exploration work on certain of our properties are presented in this annual report. We are also announcing the acquisition of a few new properties.

THE YEAR IN REVIEW

The year 1996 began quite well for your Company with the acquisition of several new properties in the Philippines. However, starting in the spring of 1996, adverse developments surrounding a few Canadian junior resource companies had a negative impact on the financing climate and the market valuation of other juniors, including Altai. As a result, our strategy shifted to a joint venture arrangement with a major company on certain of our Philippine properties. The agreement, which was subject to due diligence by the major company, was not implemented due to significant and material changes in their final proposal as compared to the original understanding. The unravelling of this deal, no doubt, further hurt our share performance. The events relating to Bre-X's Busang property in Indonesia adversely affected the financial markets for junior mining companies and resulted in additional deterioration of Altai's share price.

During the year, Altai has spent approximately one million dollars in exploration related activities in Canada (approximately \$200,000), in the Philippines (approximately \$700,000) and in Peru (approximately \$100,000). Results to date are briefly summarized under the relevant projects in the annual report. The exploration expenditures in the Philippines are only partially reflected in the audited consolidated financial statements because Altai owns 40% of the equity interest in Altai Philippines.

THE YEAR AHEAD

Altai's exploration budget for 1997 will be approximately \$500,000. Due to the current negative market sentiments with respect to junior resource companies and the significant fall in our share price, financing by outside interests has been postponed.

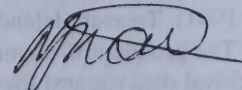
In order to increase cash resources of the Company, Altai intends to sell or lease certain of its non-core properties such as Negros Island (sulphur), Sibuyan (nickel-cobalt) and Ticao (limestone) properties. Your Company also intends to joint-venture, at an opportune time and at acceptable terms, the Mabulao (copper-gold), Bulan (gold), Mataque (copper-gold), and possibly the Mindoro (copper-zinc) projects. Our main focus for 1997 will be the Lahuy Island and Samar gold projects in the Philippines.

In Peru, a preliminary surface exploration program has been implemented for the Tierra Amarilla property. Your Company, as indicated in last year's annual report, would like to finance the development of certain of its Peruvian properties by creating a new Altai controlled public company.

In Canada, we signed a joint venture deal on the Lac St. Pierre gas project in Quebec, thereby eliminating over \$200,000 in annual carrying costs for Altai. In addition, we have completed a preliminary exploration program on the Gold River property in Nova Scotia. In the text of this annual report you will find reference to the results of exploration work carried out during 1996.

I would like to take this opportunity to thank our staff, consultants and shareholders for their continued support of this Company.

On Behalf of the Board



Dr. Niyazi Kacira
President
May 6, 1997

MAIN PROPERTIES

PHILIPPINES

Altai Resources Inc. incorporated Altai Philippines Mining Corporation at the beginning of 1996. Altai has a 40% equity interest in the Philippine company and has a direct 10% Net Smelter Return (NSR) royalty interest in all properties in which Altai Philippines has an interest. It is anticipated that 80% of the benefits from any mining operation developed by Altai Philippines will accrue to Altai under the present shareholders' agreement. Alternatively, Altai may elect to give up its 10% NSR interest and may elect to build and own 80% of the ore processing facilities; in such event, Altai would buy the ore from Altai Philippines by paying a royalty equal to 10% of the direct mining costs of the ore delivered to the processing facilities. Altai Philippines would subsequently have 20% ownership of the processing plant.

In the event that properties are joint ventured, leased or sold to a third party interest(s), 60% of proceeds will accrue to Altai Resources and 40% to Altai Philippines.

MABULAO COPPER-GOLD PROPERTY, CAMARINES NORTE

This property of 17,200 hectares (43,000 acres) is located in the Paracale gold mining camp in the Province of Camarines Norte, Luzon Island. The Paracale area is historically one of the most productive gold mining camps in the Philippines. The property is within a few kilometres of the National Highway which connects Manila with southeast Luzon. In the past, the property was subjected to exploration for porphyry copper deposits but has not been systematically explored for gold.

Surface exploration including mapping, trenching, soil and rock sampling was carried out at two of the mineralized zones which are located in the Submakin and Panguno areas. These two portions of the Mabulao property amount to less than 10% of the total area. Historical exploration data suggest that both Panguno and Submakin have good resource potential for both copper and gold.

The results of the four month long field program indicate widespread copper mineralization at both Panguno and Submakin, suggesting that the property has potential for the discovery of a porphyry copper deposit. The results of the exploration program carried out in the Panguno and Submakin areas indicate that the large resource estimates of gold made by our consultant are overly optimistic. In addition to the porphyry copper prospect, the polymetallic skarn type copper-lead-zinc mineralization at Submakin area was extensively trenching and was extended over a strike length of 1,000 metres. The mineralized zone remains open along strike. The skarn mineralization may not be economic at the current metal prices.

The best gold mineralized zone discovered so far is within the Submakin portion of the property (Little Lizard Zone) which appears to be a structurally controlled mineralization of 5 to 10 metres in width. Nineteen channel samples of one metre length each taken from this gold occurrence averaged 4 gr/tonne gold.

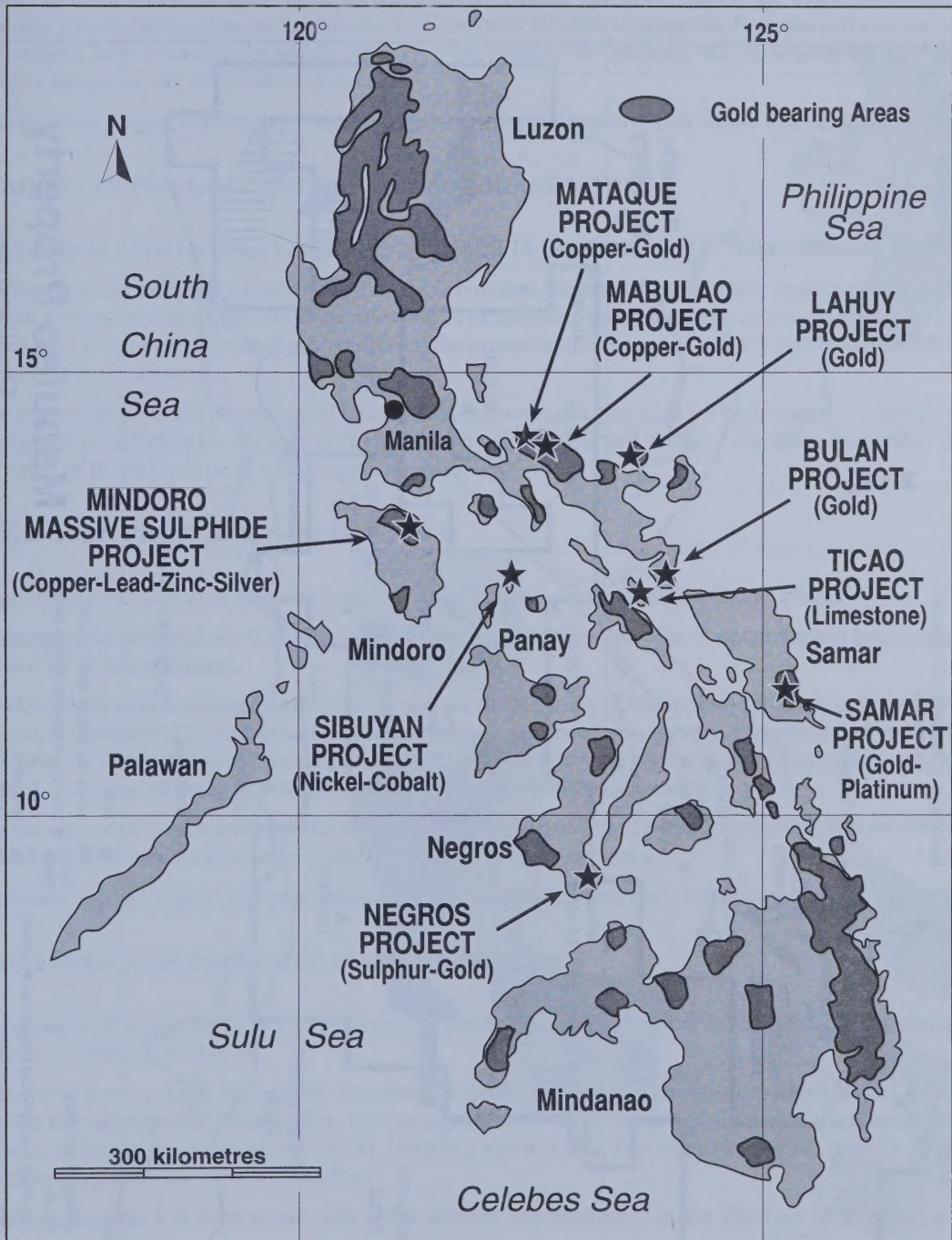
This zone and the remainder of the Mabulao property will be further explored by trenching and sampling. The soil gold anomalies found within the area of the Panguno grid will also be evaluated.

LAHUY ISLAND GOLD PROPERTY, CAMARINES SUR

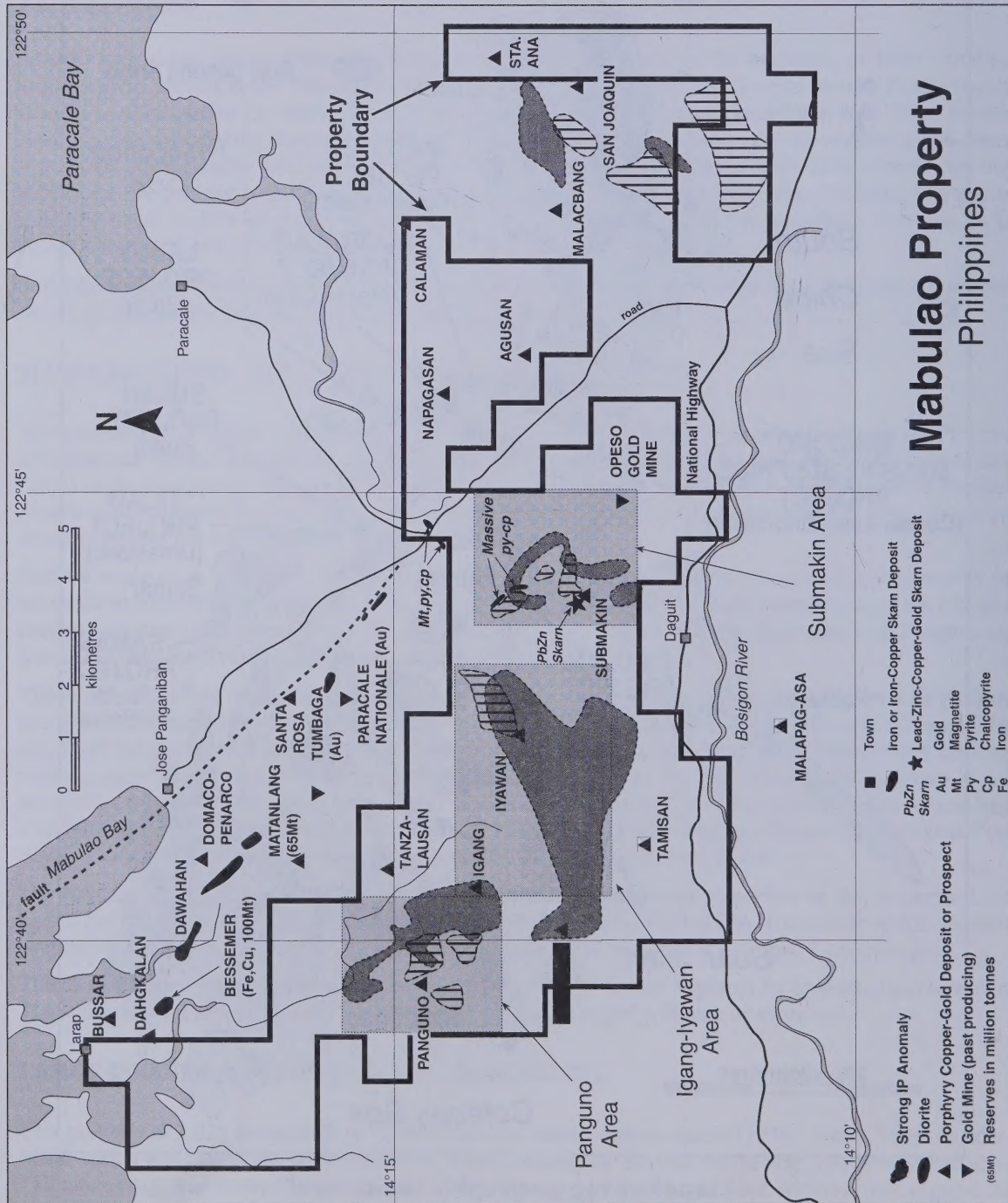
This property of 2,025 hectares (5,050 acres) hosts the former gold producer (1936 - 1941), Treasure Island Mine, which was closed due to the Japanese invasion during the Second World War. The production, about 250 tonnes/day, was derived from two veins which averaged 14 gr/tonne in gold. Archival data suggest that 300,000 tonnes averaging 13 gr/tonne remained in the underground workings at the cessation of production.

Potential for low grade (2-3 gr/tonne) bulk mineable, near surface mineralization was reported by one of

PHILIPPINE PROJECTS



Map showing geographic locations of
Altai Resources Inc. projects and their relative position
to known gold bearing areas of the Philippine Archipelago



Altai's consulting geologists. A drilling program of about 4,000 metres was carried out by an Australian company in 1988. This exploration program was carried out under the supervision of the well known Australian consulting firm Robertson Research Minerals Limited (now Robsearch Australia Pty Limited) and was aimed at delineating bulk mineable resources. Altai is in the process of obtaining this information which will be helpful in designing our exploration program.

An exploration program either fully funded by Altai or in joint venture with others will start in 1997.

MATAQUE COPPER-GOLD PROPERTY, CAMARINES NORTE

This property of 4,800 hectares (12,000 acres) is located 18 kilometres west of Altai's Mabulao property.

The property hosts a number of narrow (0.3 metre to 6 metres) structurally controlled replacement deposits of iron with accompanying copper sulphide minerals. A preliminary reconnaissance of the property was carried out by Altai Philippines personnel and confirmed the presence of copper (up to 2.5%) and gold (up to 0.4 gr/tonne) in these occurrences.

Future exploration on this property will be aimed at evaluating its potential for bulk tonnage mineralization. The property is underlain by volcanic rocks intruded by diorite sills and stocks, a condition favourable for the occurrence of porphyry type of copper-gold deposits.

SAMAR GOLD PROPERTY, SAMAR ISLAND

This property covers an area of 7,800 hectares (19,500 acres) in southeastern Samar Island.

The property has potential for finding a lateritic gold deposit; this type of gold occurrence is being currently exploited by artisanal miners.

In 1987, limited reconnaissance work was carried out by Minimax, a Philippine company, in this area. They reported the presence of hydrothermal breccia and large boulders of vein quartz cutting silicified and pyritized rock along the rivers draining this area. These are indicative of hydrothermal alteration which may be the source of alluvial gold being mined in river beds by local subsistence miners.

It was also reported that an unidentified white mineral is at times found by the subsistence miners who called it "white gold"; this is thought to be platinum or a platinum group metal.

A reconnaissance geological mapping, sampling and a geochemical survey is being carried out on this property.

TICAO LIMESTONE PROPERTY, MASBATE PROVINCE

This property of 1,300 hectares (3,250 acres) is located on a small island in the Masbate province, 350 kilometres southeast of Manila.

The property hosts a large high purity limestone deposit (150 million tonnes or more) adjacent to a shale deposit at the tidewaters of Sibuyan Sea. The juxtaposition of limestone and shale provides an ideal source of raw material for the manufacture of cement. Certain portions of the limestone deposit are suitable for use as filler in paper, plastic and rubber industries.

Preliminary contact has been made with some cement manufacturers in the Far East to lease or sell the property.

SIBUYAN ISLAND LATERITIC NICKEL - COBALT PROPERTY

This property of 5,022 hectares (12,500 acres) is located on Sibuyan Island on the tidewaters of the Visayan Sea.

About one tenth of the aerial extent of the nickel deposit was explored in the early 1980's principally by Mitsui Mining and Smelting Co. of Japan. Based on 431 drill holes and test pits Mitsui calculated reserves of 7.2 million tonnes at 1.61% nickel (at a cut-off grade of 1.3% nickel). The material contains an average of one pound of cobalt per tonne.

Potential to increase the resources ten times in this property is excellent. Altai intends to joint-venture or lease this property.

MINDORO COPPER - ZINC PROPERTY

This property of 2,916 hectares (7,290 acres) is located in the Sipuyo Province on Mindoro Island.

The property was explored in the 1970's by Alusuisse Mining Ltd., a major European mining company. Their exploration program included sampling of mineral occurrences on the surface, soil geochemical surveys, pitting and an Induced Polarization (IP) survey which is capable of detecting sulfide mineralization at depth. These surveys, carried out along 50 metres spaced grid lines, defined excellent drill targets. However, Alusuisse could not at the time secure the title of the property, hence the project was discontinued.

The most important drill targets are two IP anomalies: Anomaly A with 500 metres strikelength and 50 to 150 metres width, and Anomaly D with 800 metres strikelength and 50 to 150 metres width. Anomaly A as well as the western end of Anomaly D have coincident soil geochemical anomalies. There are five other smaller IP anomalies.

In the western part of the surveyed area there are dozens of small (2 to 10 metres size) outcrops of gossan (iron oxide) and a few small outcrops of massive sulfides. Chip samples taken over 0.2 to 8 metres length of outcrops of gossan or massive sulfide assayed from trace to 13% copper, up to 8.2% zinc and 0.7% lead. Most of the gossan samples assayed 0.1 to 0.8% copper. Since in the tropical environment a significant degree of leaching of both copper and zinc is expected, these assay results are considered promising.

Around and near the gossan and massive sulfide outcrops, a 600 metres by 450 metres size area of soil geochemical anomaly with 200 to 1,000 ppm of copper, lead and zinc was outlined. In addition there are several smaller soil geochemical anomalies. The surveys carried out by Alusuisse cover only a small portion of the property. Future exploration is required to find additional mineralization and to define other drill targets.

It is not clear at this time whether this massive sulfide prospect is the Kuroko type or the Bessi type. In both cases it should contain gold and silver values which were not assayed by earlier workers. Enrichment of gold and silver can also be expected in the oxide cap.

OTHER PROPERTIES IN PHILIPPINES

Altai Philippines owns the Bulan gold property in the Sorsogon Province and the Negros Island sulphur property which may also have some gold potential. The Negros sulphur deposit has been drilled extensively (more than 30,000 metres - 100,000 feet of drilling). Mineable reserves have been estimated at 58,000,000 tonnes averaging about 30% sulphur in native and sulphide forms. The estimates were made by the previous owners. A further 25,000,000 tonnes of drill indicated resources were left out of the open pit design. Potential is excellent to increase the reserve/resource to well over 100 million tonnes.

The sulphur reserves are sufficient to support a large fertilizer plant. There is considerable demand for fertilizers in South East Asia. This property will be sold or joint ventured.

CANADA

Altai has interest in four properties in Canada.

LAC ST. PIERRE GAS AND GAS STORAGE PROJECT, QUEBEC

This property of 53,000 hectares (132,500 acres) is located in the Sorel area, 100 kilometres east of Montreal in the industrial heartland of Quebec. To date 25% of the property has been covered by seismic surveys. Twenty-two potential shallow (less than 150 metres) natural gas reservoirs with a total possible volume of 29 billion cubic feet have been outlined. Two of these reservoirs have been drilled with gas discoveries. The greatest value of the reservoirs is in gas storage to take advantage of the peak/off-peak price differential in gas consumption. Altai has approximately 50% interest in the whole property. In 1996, additional seismic surveys aggregating to C\$160,000 for shallow and deep (600 metres or more) gas reservoirs were carried out by Altai. Information received to date indicates good potential for both types of gas reservoirs.

In 1997, an option was granted to Great Legends Mining Inc., a Montreal based private company, whereby it may earn 50% interest in the project by making exploration - development expenditures of three million Canadian dollars and cash payments aggregating to C\$550,000 to Altai and its joint-venture partner over four years.

GOLD RIVER GOLD PROPERTY, NOVA SCOTIA

Altai has acquired 100% interest in a gold property of 2,800 acres in southern Nova Scotia. The vendors will be entitled to 3% Net Smelter Return royalty capped at one million Canadian dollars and a yearly cash payment of C\$5,000. The property, commonly known as Gold River, is located 70 kilometres southwest of Halifax, the capital of Nova Scotia, and is accessible by roads.

Gold was discovered in this property in mid 19th century. Small scale gold production (six mines) took place in the 19th century and reportedly in the very early part of the 20th century from seven narrow high grade veins, parallel to bedding, with an average grade of 0.7 oz/ton gold. Most of the historical work was concentrated on these high-grade narrow veins.

The property is underlain by quartzites of the Goldenville Formation with Devonian granites outcropping along the western boundary of the claim group. A group of quartz veins locally known as the Gammon Group occurs within the property along a NE trending anticlinal axis. The Gammon Group consists of five parallel stratabound quartz veins of varying width aggregating to 53 feet in a zone 150 feet wide. The stratigraphic unit hosting the Gammon Group which trends NE-SW appears, based on geophysics, to have continuity of at least 2,500 feet along strike.

There are also a number of recognized gold bearing veins and structures striking NNW therefore nearly transverse to the NE trending Gammon Group. One of these, a vein 22 feet wide, approximately 2,000 feet southeast of the Gammon Group is reported, based on underground work, to have averaged 0.2 oz/ton gold (approximately 6 gr/tonne).

A very promising feature of this property is that the intersections of the NE trending gold zones or veins with the NNW trending transverse veins lead to enhanced gold values and such targets are thought to exist in the property.

Altai's objective for this property is to outline a large-tonnage deposit amenable to highly mechanized bulk tonnage mining.

In early 1997, Altai carried out a VLF-EM and Magnetometer survey on the property. Gammon Zone was traced for about 800 metres (2,500 feet) along strike. Four hundred metres (1,300 feet) to the southeast of the Gammon Zone, a geophysical feature similar to Gammon Zone and parallel to it was located. The cause of this anomaly is undetermined at this time.

OTHER PROPERTIES IN CANADA

Altai's 50% interest in the Malartic Township gold property, Val d'Or area, Quebec and the Red Lake claims in Ontario are being maintained in good standing. No exploration work is being planned for these properties this year.

PERU

At the end of 1996 Altai has the following twelve mining properties in Peru:

PERUVIAN PROPERTIES OF ALTAI AT THE END OF 1996

<u>Property and Commodity</u>	<u>Area (hectares)</u>
Achanizo (copper)	1,000
Carcapata (gold)	3,900
Cruz Blanca (copper, gold)	2,600
Pedregal (copper-gold-silver)	2,000
Potrero (gold)	1,000
Rodeo (gold)	300
Rio Colorado (gold)	2,000
San Jon (silver-base metal, gold)	1,400
Solitario (gold)	300
Shunchuco (gold, copper)	1,000
Tierra Amarilla (gold)	5,500
Victoria (gold)	2,000
Total	23,000

The Cruz Blanca property was acquired in 1996. In late 1996 additional claims were staked adjacent to the Tierra Amarilla No. 4 claim. The focus of activity in Peru in the coming year will be to outline an open pittable disseminated gold deposit. The more important Peruvian properties and some of the results of geological evaluation and exploration are briefly described.

CRUZ BLANCA COPPER-GOLD PROPERTY

This property of 2,600 hectares is located about 1 kilometre east of the Victoria property. These claims adjoin Inmet Mining Corporation's Clavelinas property. The Cruz Blanca and Clavelinas properties have potential for porphyry copper-gold mineralization. In early 1996, Altai made a joint venture agreement with INMET to pool their claims and to carry out an exploration program. Subsequently, INMET completed an airborne geophysical survey (magnetics and radiometric surveys) which was followed by diamond drilling. INMET



drilled five holes totalling 1,046 metres. The depth of the drill holes ranged from 140 to 301 metres. The best drill hole intersections are 2 metres with 1.3 gr/tonne gold (drill hole LC-05) and 2.5 metres with 0.84% copper (drill hole LC-01). Since the drill results did not meet INMET's expectation, the joint venture was terminated.

TIERRA AMARILLA GOLD PROPERTY

The mining claims Tierra Amarilla No. 4 to No. 8 are located 110 kilometres northeast of the coastal settlement of Trujillo, the third largest city of Peru. The property has road access. The belt of Tertiary volcanic rocks in which the claims are located has numerous copper-gold mines and polymetallic deposits with silver and gold.

Surface exploration involving mapping, trenching and rock sampling have been carried out at the Tierra Amarilla No. 4 mining claim. Numerous anomalies ranging from hundred parts per billion to 4.8 gr/tonne gold were found within this claim. In addition, most of the samples analysed have elevated zinc content (100 to 1,318 ppm). Following the initial exploration program, additional claims totalling 3,400 hectares were staked adjacent to claim TA-4. A large zone of hydrothermally altered volcanic rocks is present within claim TA-5; tourmaline breccia pipes and linear zones of silica, sericite and clay alteration extending over 1 kilometre length have been mapped and sampled. Assaying results are awaited. The breccia pipes and silicified zones have potential for hosting gold and base metal mineralization. Further surface exploration including trenching and channel sampling will be carried out on this property in late 1997 or early 1998.

VICTORIA 1 AND 2 GOLD PROPERTY

This property of 2,000 hectares is located within the Caraveli Gold Mining Camp. The past producing Eugenia gold mine is 2 kilometres northwest of the property while the Oconia Gold Mine, which has been continuously mining narrow gold veins for 80 years, is located 4 kilometres northeast of Victoria. The Victoria property has at least seven narrow high grade gold veins, some of them are more than 1 kilometre long and have a vertical extent (exposed on hillsides) of up to 1,000 metres or more. The average width of the veins is about 25-30 cm. In the 1970's, five of the veins were evaluated by the Mining Bank of Peru for the purpose of an operating loan to the owners at that time. Based on surface sampling and sampling of 300 meters of underground workings, potential resources of 2.3 million tonnes at an average grade of 24 gr/tonne gold were given by the Mining Bank. A preliminary sampling program by Altai gave assay results of 1.8 to 78 gr/tonne gold on the Fortuna Vein (average 12 gr/tonne) and 10 to 25 gr/tonne gold (average 16 gr/tonne) on the Sauce Vein.

Three Peruvian individuals have the right to earn 30% working interest in the Victoria project by making a cash payment equivalent to 30% of past expenditures relating to the acquisition and exploration of this property. Considerable delays have been experienced in finalizing this deal; to this date, Altai has not received the cash payment. The management of Altai has decided that until the ownership issue is settled, the exploration of the Victoria property is suspended. It is expected that the issue will be resolved soon.

OTHER PROPERTIES IN PERU

Altai del Peru S.R.L., the wholly owned subsidiary of Altai, owns 9 other mining properties in Peru which have potential for gold or copper-gold mineralization. The Rodeo property is located in the Juaraz area within a gold-silver mineralized belt which also hosts the Pierina deposit of Barrick Gold Corporation. During 1996, this property was the subject of a preliminary geological evaluation by potential joint venture partners.

The Rio Colorado gold property is located in northern Peru near Huamachuco. The first phase of property evaluation indicated some soil and bedrock gold anomalies. A second phase of property evaluation including sampling and mapping will be carried out at Rio Colorado in 1997.

**CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 1996**

ASSETS

	<u>1996</u>	<u>1995</u>
Current		
Cash	\$ 633,493	\$ 1,412,542
Marketable securities (Note 3)	364,444	555,465
Accounts receivable	24,465	60,891
Due from director	-	45,994
Prepaid expenses	5,941	-
	<u>1,028,343</u>	<u>2,074,892</u>
Share investment (Note 4)	596,754	-
Note receivable (Note 5)	546,903	-
Investment in subsidiaries (Note 6)	1,030,853	1
Interests in mining properties (Note 7)	1,980,536	3,353,514
Natural gas interest (Note 8)	1,020,525	865,387
Capital assets (Note 9)	23,188	25,095
	<u>\$ 6,227,102</u>	<u>\$ 6,318,889</u>

LIABILITIES

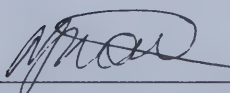
Current		
Accounts payable	\$ 97,707	\$ 18,891
Income taxes payable	-	2,698
	<u>97,707</u>	<u>21,589</u>
Deferred taxes payable	62,750	160,000
	<u>160,457</u>	<u>181,589</u>

SHAREHOLDERS' EQUITY

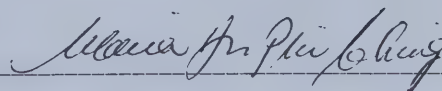
Share capital (Note 10)	7,500,045	6,784,796
Deficit	(1,433,400)	(647,496)
	<u>6,066,645</u>	<u>6,137,300</u>
	<u>\$ 6,227,102</u>	<u>\$ 6,318,889</u>

The accompanying notes are an integral part of the financial statements.

Approved on behalf of the Board:



Director



Director

**CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1996**

	1996	1995
Revenue		
Investment and miscellaneous income	\$ 150,394	\$ 1,022,003
Management fees	-	16,250
	<u>150,394</u>	<u>1,038,253</u>
Expenses		
Administrative expenses	533,691	313,026
Non-resource projects written-off	-	1
Abandonment and write offs	493,730	652,726
Prospecting and general	1,059	8,401
Amortization	4,721	3,554
	<u>1,033,201</u>	<u>977,708</u>
Net income (loss) before provision for income taxes and extraordinary item	<u>(882,807)</u>	<u>60,545</u>
Provision for income taxes - current	347	25,000
- deferred	(97,250)	160,000
	<u>(96,903)</u>	<u>185,000</u>
Net loss before extraordinary item	(785,904)	(124,455)
Tax recovery resulting from realization of prior years' non-capital losses	<u>-</u>	<u>25,000</u>
Net loss	<u>(785,904)</u>	(99,455)
Deficit, beginning of year	<u>(647,496)</u>	<u>(548,041)</u>
Deficit, end of year	<u>\$(1,433,400)</u>	<u>\$ (647,496)</u>
Net loss per year (weighted average)	<u>\$ (0.061)</u>	<u>\$ (0.008)</u>

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1996

	<u>1996</u>	<u>1995</u>
Operating activities		
Net income (loss)	\$ (785,904)	\$ (99,455)
Items not affecting cash:		
Deferred income taxes	(97,250)	160,000
Share of net loss of equity investments	1,158	-
Write off of non-resource project	-	1
Abandonment and write offs	493,730	652,726
Amortization	4,721	3,554
Unrealized exchange gain/loss	(675)	5,766
Gain on sale of marketable securities	(8,438)	(919,828)
Gain on sale of foreign resource property	-	(15,308)
	<u>(392,658)</u>	<u>(212,544)</u>
Decrease (increase) in accounts receivable	36,426	(35,035)
Decrease in due from related company	-	12,424
Increase in prepaid expenses	(5,941)	-
Decrease (increase) in due from directors	45,994	(45,994)
Increase (decrease) in accounts payable	78,816	(63,719)
Increase (decrease) in income taxes payable	(2,698)	2,698
Cash used in operating activities	<u>(240,061)</u>	<u>(342,170)</u>
Investing activities		
Mining properties acquisition costs	(16,885)	(66,149)
Deferred exploration expenditures	(136,475)	(350,051)
Purchase of marketable securities	-	(22,673)
Proceeds on sale of marketable securities	200,134	1,435,871
Proceeds on sale of foreign resource property	997,575	62,000
Natural gas interests	(155,138)	(45,989)
Purchase of capital assets	(2,814)	(18,857)
Share investment	(596,754)	-
Increase in loan receivable	(546,903)	-
Investment in subsidiaries	(716,977)	-
Cash provided by (used in) investing activities	<u>(974,237)</u>	<u>994,152</u>
Financing activities		
Issue of shares	435,249	93,232
Change in cash	(779,049)	745,214
Cash, beginning of year	<u>1,412,542</u>	<u>667,328</u>
Cash, end of year	<u><u>\$ 633,493</u></u>	<u><u>\$1,412,542</u></u>

The accompanying notes are an integral part of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1996

1. Nature of operations

The Company has interests in mining properties which it is in the process of exploring and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of expenditures on resource properties, including deferred exploration expenditures, is dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to complete the exploration and the development of the resource properties, and upon future profitable production or proceeds from the disposition thereof.

2. Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries in Canada, Peru, Turkey and the United States.

(b) Marketable securities

Marketable securities are carried at the lower of cost and market value.

(c) Interests in mining properties

Interests in mining properties and claims are stated at cost. Exploration expenditures relating to mining properties in which an interest is retained are deferred and are carried as an asset until the result of the projects are known. If a project is successful, the acquisition cost and related deferred exploration expenditures would be amortized by charges against income from future mining operations. If a project is unsuccessful or if exploration has ceased because continuation is not economically feasible, the cost of the property and the related exploration expenditures are written off.

Exploration expenditures, which are general in nature and cannot be associated with a specific group of mining claims, and general administrative expenses are written off in the year in which they are incurred.

(d) Natural gas interest

Natural gas interest is stated at cost and includes expenditures for carrying and retaining undeveloped properties.

(e) Capital assets

Capital assets are stated at cost less accumulated amortization. Amortization of capital assets have been provided in the accounts on the straight line basis at the following rates:

- Leasehold improvements - over the term of the lease
- Furniture and fixtures - over 5 years
- Computer equipment - over 3 years

(f) Foreign currency translation

Balances denominated in foreign currencies are translated into Canadian dollars as follows:

- i) monetary assets and liabilities at year end rates;
- ii) all other assets and liabilities at historical rates; and
- iii) revenue and expense transactions at the average rate of exchange prevailing during the year.

Exchange gains or losses arising on these transactions are reflected in income in the year incurred.

3. Marketable securities

The marketable securities on hand at December 31, 1996 had a market value of \$569,097 (1995 - \$581,431).

4. Share investment

The share investment represents 943,500 shares of Ace Developments Ltd. ("Ace") acquired on the sale of Oro Sunkwa Inc. These shares are subject to a hold period which expires on December 29, 1997. The Company has granted an option to three directors of Ace to acquire all the shares held by the Company at \$1.00 per share at any time on or after December 30, 1997 and up to and including January 30, 1998. The Company was granted an option by these same directors to require these directors to purchase all the shares of Ace held by the Company at \$0.85 per share at any time on or after January 30, 1998 and up to and including February 28, 1998. At December 31, 1996, the shares had a market value of \$641,580.

5. Note receivable

The note receivable represents a promissory note due from Altai Philippines Mining Corporation ("Altai Philippines"). This note bears interest at the rate of 18% per annum compounded annually. Although this note has no fixed terms of repayment, Altai Philippines is required under the terms of its shareholders' agreement to use at least 60% of its operating income to first pay any and all loans and accrued interest due to the Company. The monies advanced under this promissory note were for the purposes of exploration and acquisition of properties by Altai Philippines.

6. Investment in subsidiaries

The Company records its investment in the 40% owned subsidiary, Altai Philippines Mining Corporation, on the equity basis. Under this method, the company reflects in earnings its proportionate share of the earnings (losses) of the subsidiary (1995 - (\$1,158)). The investment in the subsidiary is recorded at cost minus undistributed losses since inception.

The investment in the Company's wholly owned subsidiary, Compania Minera Carrera S.A., has been written down to a nominal value. The Company has abandoned all activities in Chile and currently retains no interest in any properties in the country.

7. Interests in resource properties

	Balance, Beginning of Year	Expenditures	Write-off/ Disposition	Balance, End of Year
Malartic Township, Quebec				
Property	\$ 279,961	\$ -	\$ -	\$ 279,961
Expenditures	717,627	154	-	717,781
Killala Township, Ontario				
Property	-	-	-	-
Expenditures	149,370	154	-	149,524
Gold River, Nova Scotia				
Property	-	16,885	-	16,885
Expenditures	-	631	-	631
North Carolina, USA				
Property	154,080	-	154,080	-
Expenditures	87,497	613	88,110	-
Obuom, Ghana				
Property	823,950	-	823,950	-
Expenditures	173,625	-	173,625	-
Manto Azul, Peru				
Property	17,016	-	17,016	-
Expenditures	233,272	1,252	234,524	-
Victoria, Peru				
Property	-	-	-	-
Expenditures	367,321	54,794	-	422,115
Rio Colorado, Peru				
Property	-	-	-	-
Expenditures	52,493	3,051	-	55,544
Tierra Amarilla, Peru				
Property	-	-	-	-
Expenditures	1,152	24,791	-	25,943
Other properties, Peru				
Property	-	-	-	-
Expenditures	155,994	41,703	-	197,697
Bayat, Turkey				
Property	62,618	-	-	62,618
Expenditures	36,911	158	-	37,069

	Balance, Beginning of Year	Expenditures	Write-off/ Disposition	Balance, End of Year
Other properties				
Property	-	-	-	-
Expenditures	40,627	9,174	35,033	14,768
Total mining properties				
Property	1,337,625	16,885	995,046	359,464
Expenditures	2,015,889	136,475	531,292	1,621,072
	<u>\$ 3,353,514</u>	<u>\$ 153,360</u>	<u>\$ 1,526,338</u>	<u>\$ 1,980,536</u>

Resource property descriptions:

Malartic Township, Quebec

50% working interest in mining claims.

Killala Township, Ontario

100% interest in unpatented mining claims.

Gold River, Nova Scotia

100% interest in gold property.

Bayat, Turkey

100% interest in an antimony property of 512 hectares (1,280 acres) in the Afyon Province, Turkey.

Victoria, Peru

70% interest in a gold property of 2 claims aggregating to 2,000 hectares in the Arequipa Province, Peru.

Rio Colorado, Peru

100% interest in gold concessions in Sanchez-Carrion, Peru.

Carcapata, Peru

100% interest in a gold property of 3,900 hectares.

Tierra Amarilla, Peru

100% interest in a gold property of 5,100 hectares.

Other Properties, Peru

Eight other properties, 100% owned through claim staking, including 4 gold, 1 copper and 3 copper-gold properties.

Tassawini, Guyana

The Company retains a 10% net profits interest (NPI) of Menora Resources Inc.'s ("Menora") share of the project. Menora can buy out the NPI by paying the Company US\$2,000,000 on or before March 6, 2000.

8. Natural gas interest

At the beginning of 1996, the Company owned 34.9% working interest in one of the four permits and one of the two reservoirs in a natural gas storage project comprising natural gas leases covering certain lands in the Sorel area of Quebec. At December 31, 1996, the working interest in this permit remained at 34.9%. In three of the four permits and one of the two reservoirs in the property Altai owned a 74.57% working interest at the beginning of 1996. At December 31, 1996 this working interest increased to 78.94% through dilution of the joint venture partner. Menora Resources Inc. holds a 10% net interest participation in the Company's future share of net profits after payback from the project. Menora's participation is limited to the recovery of its investment carrying value of \$259,010.

9. Capital assets

	1996			1995
	Cost	Accumulated Amortization	Net	Net
Furniture and equipment	\$ 40,067	\$ 21,206	\$ 18,861	\$ 18,036
Leasehold improvements	13,663	9,336	4,327	7,059
	<u>\$ 53,730</u>	<u>\$ 30,542</u>	<u>\$ 23,188</u>	<u>\$ 25,095</u>

10. Share capital

Authorized:

An unlimited number of common shares of no par value

Issued:	<u>No. of shares</u>	<u>Amount</u>
Issued at December 31, 1995	12,649,406	\$6,784,796
Issued during the year	<u>859,761</u>	<u>715,249</u>
Issued at December 31, 1996	<u>13,509,167</u>	<u>\$7,500,045</u>

- (a) During 1996 the Company issued 368,322 shares (1995 - 229,534 shares) pursuant to exercise of stock options.
- (b) During 1996 the Company issued 400,000 shares of its capital at a deemed value of \$280,000 for asset purchase. They were issued to the four Filipino shareholders of Altai Philippines Mining Corporation for the purchase of Altai's rights to the Philippine properties.
- (c) During 1996 the Company issued 91,429 shares for \$160,000 pursuant to a private placement for flow-through financing of exploration work of Lac St. Pierre gas property.
- (d) At December 31, 1996 options were outstanding to directors, officers and employees pursuant to the Company's 1987 and 1996 incentive stock option plans to purchase 1,278,400 shares at prices ranging from \$0.50 to \$2.70 per share expiring at dates ranging from January 23, 1997 to November 28, 1999.

11. Related party transactions

Consulting services were provided by officers. Fees for such services amounted to \$183,786 (1995 - \$163,207).

12. Lease commitment

The minimum annual rental under the Company's lease, exclusive of operating costs for which the Company is responsible, is as follows:

1997	\$5,680
1998	\$3,313

13. Income taxes

The provision for income taxes is different from the amount that would have been computed by applying statutory federal and provincial rates due to the following:

	1996	1995
Statutory rate	22.34%	22.34%
Loss before income taxes	\$ (785,904)	\$ (99,455)
Provision for taxes	(97,250)	160,000
Amortization per statements	4,721	3,554
Write-offs and abandonments	493,730	652,726
Non-taxed capital gains	(2,109)	(495,362)
Non-deductible losses of subsidiaries	23,282	8,132
Proceeds on sale of resource property	-	62,000
Allowable business investment loss	-	(474,334)
Dividends	(26,239)	(25,631)
Capital cost allowance	(5,565)	(5,453)
Income (loss) for tax purposes	<u>\$ (395,334)</u>	<u>\$ (213,823)</u>

The Company has the following income tax losses and timing differences, the benefits of which have not been recognized in these financial statements.

Income tax losses by year of expiry:

2000	\$ 108,000
2001	214,000
2002	<u>395,000</u>
	<u>\$ 717,000</u>

14. Subsequent event

In February 1997, an option agreement was signed between the Company and its project partner, Petro St-Pierre Inc., and Great Legends Mining Inc. ("Great Legends") of Montreal to grant an option for Great Legends to earn a 50% working interest in the property by spending \$3 million in exploration-development expenditures and by making cash payments of \$550,000 to the existing joint venture partners over four years.

Bolton & Bolton

Chartered Accountants

25 Oakcrest Avenue, Unionville, Ontario L3R 2B9

AUDITORS' REPORT

To the Shareholders of Altai Resources Inc.

We have audited the consolidated balance sheets of Altai Resources Inc. as at December 31, 1996 and 1995 and the consolidated statements of operations and deficit and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Bolton & Bolton
Chartered Accountants

Unionville, Ontario
April 2, 1997

COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA - UNITED STATES REPORTING DIFFERENCES

In the United States, reporting standards for auditors require the expression of a qualified opinion when the financial statements are affected by significant uncertainties such as those referred to in notes 1 and 2 to the financial statements. The opinion in our report to the shareholders dated April 2, 1997 is not qualified with respect to, and provides no reference to, these uncertainties since such an opinion would not be in accordance with Canadian reporting standards for auditors when the uncertainties are adequately disclosed in the financial statements.

Bolton & Bolton
Chartered Accountants

Unionville, Ontario
April 2, 1997

CORPORATE INFORMATION

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Dr. Andrew Szonyi
Maria Au
Kursat Kacira
Babu Gajaria

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Dr. Arpad Farkas - VP, Exploration

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STOCK EXCHANGE LISTING : The Toronto Stock Exchange
Symbol: ATI

U.S.A. : SEC RULE 12g3-2(b) EXEMPTION NO.:
82-2950

